

WHAT NOW?

The West wants in the Indo-Pacific

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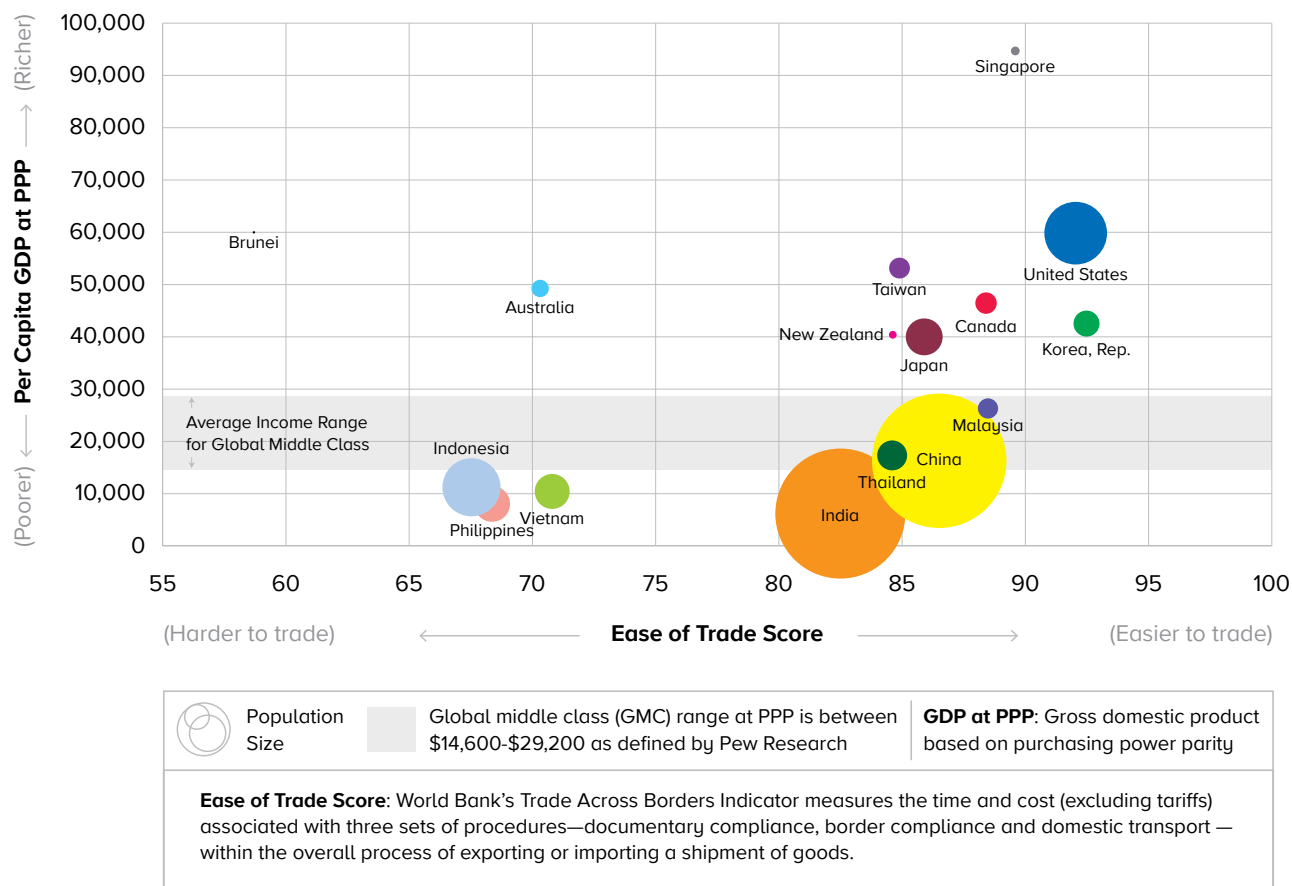
What is the problem?

On a Sunday morning, while Canadians were glued to their TVs watching the country play a do-or-die World Cup match, and with less than 24 hours' notice, the federal government released a strategy document that will have the most impact on the West compared to the rest of the country. One thing is clear from the relatively brief strategy document, as well as the confusion and admitted uncertainty in the federal government's communication about it – there is still a window to help the government fill in the large number of blanks in how the strategy will be implemented. A proactive response from western Canadian governments, businesses and others involved in trade is needed now before the window closes.

What is the Indo-Pacific?

The Canadian government's definition of the Indo-Pacific lists 40 countries and economies, many with little economic importance to Western Canada. The countries included are those with which there are trade negotiations or countries that are part of a regional trade bloc that Canada could join. The total reflects 14 key markets – Australia, Brunei, India, Indonesia, Philippines, Vietnam, China, Taiwan, Korea, Malaysia, Thailand, New Zealand, Japan, and Singapore, plus existing CPTPP members.

Figure 1: Making sense of the markets: Large, rich and easy vs small, poor and difficult – and everything in between



Source: World Bank

Figure 1 helps make sense of who's who in the 14-market Indo-Pacific mix. Bubble size shows how large a market is compared to others. Markets toward the top of the chart are richer and those to the right are easier with which to trade. A large bubble in the upper right-hand corner would be the ideal market: large, rich, and easy. The chart also shows the income band for being considered a global middle class country – those with enough income for citizens to buy more and better quality.

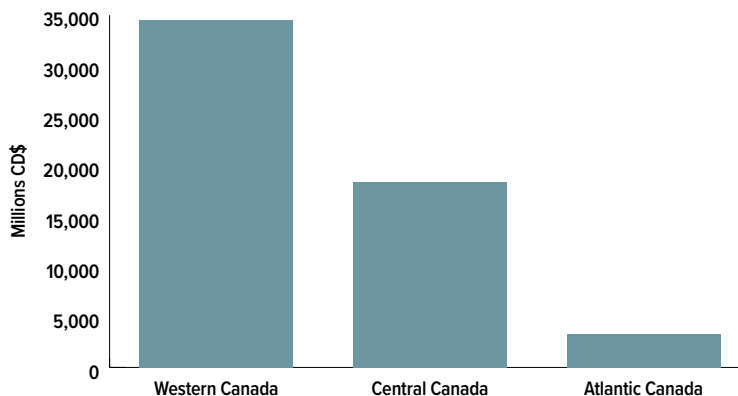
How important is this region to the West?

The Prairies are the most export-dependent region of Canada with exports accounting for just under a third of the region's GDP: 30.5% in 2019 vs 27.5% for central Canada and 30.1% in the Maritimes. The largest export destination for the Prairies is the U.S. followed by Indo-Pacific countries. Figure 2 shows flows to the 14 key Indo-Pacific markets by Western Canada exceed those of the rest of Canada by more than \$20 billion in 2020.

Figure 3 shows exports to the major trade blocs in the Indo-Pacific region to which Canada is a part: the CPTPP, to which it is negotiating entrance; the Association of Southeast Asian Nations (ASEAN) and to which Canada could apply; and the Regional Comprehensive Economic Partnership (RCEP).

Figure 3 also shows that in terms of diversification of trade, the Indo-Pacific region offers the best opportunities for Western Canada to grow trade through the traditional trade architecture of trade blocs built on trade agreements. There currently are no plans for such a traditional trade liberalization mechanism, e.g., a trade agreement with tariff cuts and dispute settlement, under the U.S. Indo-Pacific Economic Framework.

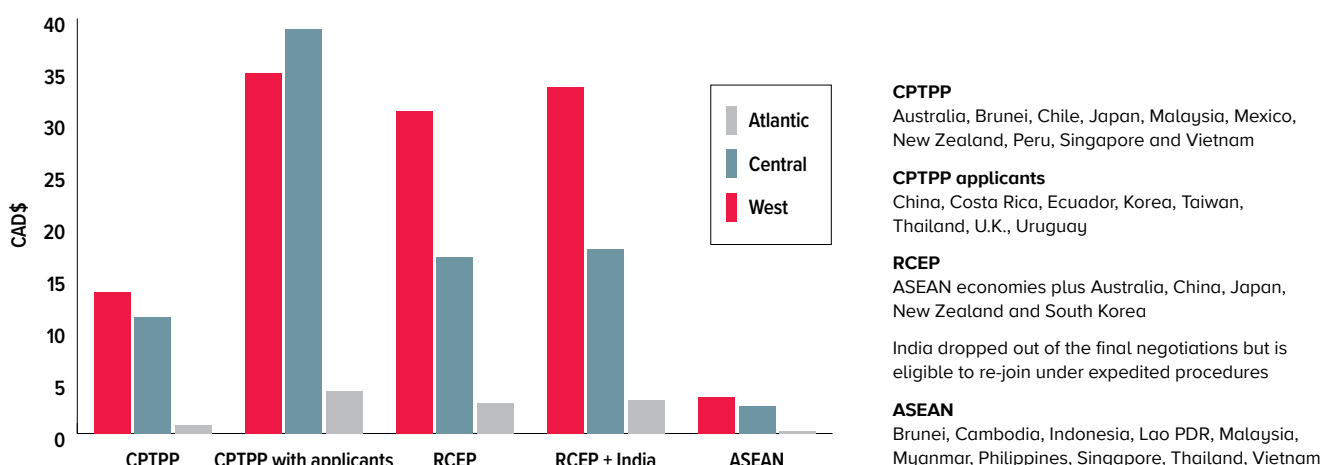
Figure 2: Canadian exports to 14 Indo-Pacific economies by region, 2020



Source: Statcan, Trade data online

Note: Western Canada (BC, AB, SK, MB), Central Canada (ON, QC), and Atlantic Canada (NL, NB, NS, PEI)

Figure 3: Value of export in Indo-Pacific trade agreements for each Canadian region

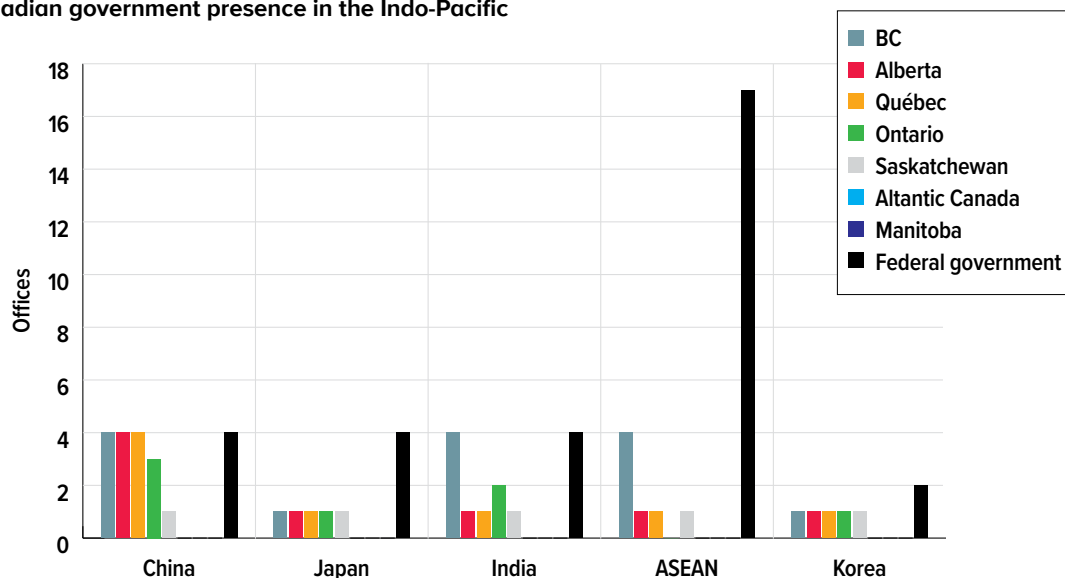


Source: Statcan, Trade data online

There is potential for Western Canada to improve the conditions of trade in the Indo-Pacific region. Expanding the CPTPP, hailed as one of the strongest trade agreements in Asia, would make trade easier by moving trade to be under one set of high-quality rules and regulations for multiple markets. Joining the RCEP would provide benefits through consistent but weaker rules and regulations. The RCEP logic also applies to the potential Canada-ASEAN trade agreement. Signing traditional trade agreements, with elements like tariff cuts, is something that the U.S. cannot do given its domestic politics. The Indo-Pacific is therefore a region where western Canadian exporters can gain competitive advantage over their American competitors and quickly catch up with regional competitors like Australia.

The importance of the Indo-Pacific to Western Canada is also seen in provincial, on-the-ground presence in the region. Provincial investment sends a strong signal that provinces have serious interests that need provincial support. The three western provinces with the greatest exports have several offices in the region, most with more than one staff person. For comparison, the Canadian sub-national presence abroad is much more intense than that of U.S. states. Five Canadian provinces, Alberta, British Columbia, Saskatchewan, Ontario, and Quebec, have a total of 37 offices with close to 70 staff in the Indo-Pacific region. Meanwhile, only 12 U.S. states have representatives in the region with 35 listed representative offices but only 28 identified staff.

Figure 4: Canadian government presence in the Indo-Pacific



Source: CWF calculation from government websites

Canadian Indo-Pacific Strategy (IPS) context

Before diving into implications of the strategy for the West, there are five key points necessary to understand the strategy.

First, the IPS is not a trade strategy. Trade plays a large role but is not at the centre – security is. The document is a product of our time where security concerns, Canadian confrontation with China and navigating the U.S.-China confrontation are at the forefront of policy – foreign, domestic and economic. For stakeholders used to trade being the tail that wags the dog, this is now reversed. For example, Trade Commissioner Service resources will be directed to help companies manage new and likely increasing security rules and requirements – not only finding new customers.

Second, the IPS is as close as Canada has come to having a China policy. The document contains not unexpected harsh language about China given recent events. But it also clearly puts an end to the idea of decoupling from China. The document states the obvious – that China is too big a market to ignore or avoid, even if one is not trading with China directly. It reaffirms that the federal government will continue to help companies diversify from and, equally

importantly, diversify within the Chinese market. In the current charged political climate in Canada on China, this ‘diversify within’ reads as code for continuing to help businesses do business in China – the opposite of decoupling. The lack of any mention of cuts to on-the-ground trade related resources in China echoes this point. To better survive in a world where China is such a force, the strategy funds increased capacity for China competence – knowledge building, relationship strengthening and institutional capacity at home and abroad. This is something the Canada West Foundation has been and continues to do with its [reports](#), [symposia](#), [Trade Ahead presentations](#), [webinars](#) and [China Brief](#).

Third, the document elevates the importance of India as the ‘next big thing.’ The size and importance of the market is well known. Glossed over in the strategy is an articulation of and response to the complexity, difficulty and risk in India. Before China cut Canadian canola imports, India cut Canadian pea imports with similar devastating effect. The country ranks 119 out of 165 on the [Human Freedom Index](#), is more than 10 points lower than China when looking at ease of trade (*Figure 1*) and there are numerous Canadian domestic issues in the relationship. Building capacity and competence are needed for surviving a relationship with China, the same is the case with India.

Fourth, the strategy fails to proactively and aggressively build on the advantages that Canadian companies have in the CPTPP. The document makes only one mention of substance on that agreement. It continues Canada's passive stance on enlarging the trade bloc – Canada will respond to, but not actively encourage, expressions of interest. In the CPTPP, Canadian business has everything that its U.S. competitors want but cannot and will not get from their government – tariff reductions, dispute settlement, strong, binding rules and labour mobility. Enlarging the CPTPP, with its single set of rules for several markets, is preferable to signing new trade agreements that increase the tangled mess, cost, confusion, and paperwork that a disjointed group of markets presents. The same domestic political forces that caused the U.S. not to join the CPTPP have only grown stronger. The U.S. will not rejoin the agreement let alone sign any new traditional trade agreement. The country's Indo-Pacific Framework is an attempt to make the best of this bad situation with second best measures. That Canada is not doing everything possible to hammer this advantage is a missed opportunity.

Fifth, as important as gaining market access is, more important is losing new market access challenges. Globally, tariffs are low though still high in the Indo-Pacific. The big constraint on trade is the rise of trade irritants and things like the non-tariff barriers used in the canola dispute with China. Rising security concerns are expected to increase rules and regulations, creating potential compliance risks that will make survival even more difficult. The strategy provides resources to help firms maintain market access rather than the more traditional support to increase access.

What's in the IPS?

Table 1 (page 6) shows the strategic objectives and initiatives tied to the IPS. These appear to be a mix of repurposed, already-existing funds and new initiatives and investments. Items most important to Western Canada are highlighted. There is much confusion as to what is covered under each line item and there is likely some 'double counting' of previously existing spending. Still, the initiatives are useful to focus a western response including where to demand clarity starting with LNG.

Despite listing renewable energy as a focus, there is no clarity as to whether LNG is included in this definition. There is also no mention of exporting cleaner Canadian oil.

Spending includes a mix of in-Canada and in-region spending. There are three areas of interest for Western Canada – competency or capacity building in Canada, support for trade abroad and immigration. Each of these areas provide potential to leverage as well gain federal funding. For example, the increase in visa processing and student recruitment provides an opportunity for provincial governments to put resources in the region to better identify, recruit and qualify immigrants to meet specific provincial needs which are better known by provincial than by federal officials. The new regional agriculture and agri-food office in Singapore may have potential for coordination and cooperation. It may also require a recalibration of provincial resources in the region or moving new resources to Singapore.

What comes next?

An obvious priority is to seek clarification from the federal government and where possible seek to shape definitions of what is in the federal strategy.

There is a need for each province along with producer and export associations to develop a response to the strategy including projects for funding, public pushback on missing elements and advocacy to shape implementation of the IPS. There is also an opportunity for collaboration among the provinces on all of these activities to avoid duplication of effort and expenditure and to have a stronger voice in advocating with the feds.

A good first step would be a convening of western or Prairie trade ministers either alone or with key stakeholders to share information and coordinate responses. Such a summit could also lay the basis or even set a specific agenda for future cooperation in the region. A summit would also signal western Canadian seriousness to economies of the region and remind them of the need to also talk to the West in addition to Ottawa. Such a summit would benefit more from being on-going, at least matching the federal government's five-year horizon.

In this vein, any actions or investments taken by western stakeholders beyond obvious one-off measures need to last well beyond election cycles. Showing up and disappearing or completely remaking initiatives or re-organizing departments is something the region may expect from Canada based on past behaviour. Step one in ensuring success in the region is to put that expectation to rest. Seeking and building bi-partisan support is critical to gaining private sector support at home and to being taken seriously in the region.

More to come: In the new year, CWF will publish a more detailed report unpacking and analyzing the importance of the IPS to Western Canada.

**Table 1: Announced Indo-Pacific spending by line item and areas of potential interest for Western Canada highlighted**

OBJECTIVE	INITIATIVE	MILLIONS CD\$
Peace, resilience, security	Enhanced Defence Presence Contribution	\$492.9
	Strengthened Public Safety, Security	\$87.8
	Security Partnerships, Capacity Building	\$92.6
	Cybersecurity, Digital Technology Diplomacy	\$47.4
		\$720.7
Trade, investment, supply chain resilience	Canadian Trade Gateway in Southeast Asia	\$24.1
	Modern Team Canada 3.0 Trade Missions	\$45
	CanExport Enhancements for exporting / investment attraction	\$37
	Indo-Pacific Agriculture / Agri-Food Office	\$31.8
	Technical Assistance for Trade and Labour Compliance	\$25
	Expanding Natural Resource Ties	\$13.5
	International Science, Technology, Innovation Partnerships	\$65.1
	Enhanced Indo-Pacific Engagement in Standardization	\$2.2
	\$243.7	
Investing in / connecting people	Visa Processing, Student Recruitment, Business Intelligence	\$74.6
	Expanded SEED Scholarship	\$14.2
	Indo-Pacific Engagement Initiative	\$40.1
	Feminist International Assistance	\$132
	\$260.9	
Sustainable and green future	Indo-Pacific Infrastructure Support	\$750
	Shared Ocean Fund	\$84.3
	Disaster Risk, Resilience	\$52.4
	Clean Technology Demonstration	\$16
	Environment Bilateral Programming	\$100
	\$1,002.7	
Canadian capacity building	Indo-Pacific Regional Capacity Uplift	\$100
	ASEAN Partnership, Trust Fund	\$13.1
	Asia Pacific Foundation	\$24.5
	\$137.6	

Source: Office of the Minister of International Trade, Export Promotion, Small Business and Economic Development

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